

requires policyholders to exhaust other sources of recovery before they may obtain payment of their claims with guaranty fund money. Potential recoveries from solvent insurers must be pursued. For example, automobile liability claimants must exhaust their own uninsured motorist coverage before they may receive reimbursement from the property-casualty guaranty fund.

Even if you have filed a claim with the insolvent company, you may need to file a claim with the court-appointed liquidator of the company. You will receive a notice from the liquidator advising you on how to file a claim, and how long you have to do it. Pay close attention to any filing deadlines mentioned in the letter – you must comply with those deadlines in order to preserve your rights. A claims analyst normally processes claims on several receivership companies at the same time. For this and other reasons, it often takes several months to pay a claim after it is filed.

The receiver and guaranty associations have a duty to pay only valid claims. A claim may be paid only if it arises from a loss covered by the terms of the policy. For that reason, some claims filed against companies in receivership are rejected.

A claim may be paid only within the dollar limits set by the policy itself, up to the maximum allowed by the applicable state guaranty fund law.

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# Guaranty Associations: How They Protect You



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## Who insures the insurance company?

Because insurance exists to protect what we value the most, states have created protections for insurance consumers. Since 1904, the Mississippi Insurance Department (MID) has been responsible for regulating insurance. A primary job of state insurance regulators is to make sure that the insurance company that you do business with will be around when the time comes for it to pay your claim. Under Mississippi's system of regulation, most potential problems with a licensed insurance company can be identified – and dealt with – long before they become serious.

Mississippi, like all states, has a safety net to protect insurance consumers from financial loss in the rare instance that a company becomes insolvent. These safety nets are called “guaranty associations”.



Mississippi has two guaranty associations: one for property and casualty insurance, and one for life and health insurance and annuities. The guaranty associations are established by state law and are comprised of membership of companies licensed to do business in Mississippi. Guaranty associations pay the claims of policyholders of an insolvent company when that company's assets become insufficient to meet their obligations to policyholders. The money used to pay these claims comes from assessments made against all insurance companies that are members of the respective guaranty association. Mississippi's guaranty associations operate and pay claims at no direct cost to the state treasury or taxpayers.

Insurance company failures are rare. From time to time, insurance regulators will take over insurance companies facing economic trouble in order to protect insurance consumers. However, these companies represent a tiny fraction of the industry. In a typical year, less than one percent of American companies are seized by state officials. Mississippi has one of the lowest rates of company insolvencies of any state in the nation.

### Selecting a financially strong insurance company

Any decisions you make in purchasing insurance should not be based on the existence of a guaranty association. This protection is not a substitute for consumers' care in selecting companies that are well-managed and financially stable. The first step in selecting a financially strong insurer is to shop around. Talk to several representatives or agents from a number of different companies. Tell them what your insurance needs are and ask them what their company will charge to cover you. Once you have narrowed down the companies you are considering, there are a number of steps you can take to learn more about their financial condition.

If you are unsure about the status of a company that you are considering, call the MID at 800-562-2957 to determine whether the company is licensed to do business in Mississippi. If it is not, don't buy insurance from that company (and let the Department know that the company is trying to do business in Mississippi). If you purchase insurance coverage from companies not licensed to do business in Mississippi, you may not be protected by a guaranty association should the company fail.

Several private companies or rating agencies conduct financial analyses of insurance

companies and grade them. These grades or private ratings are only opinions. Therefore, they carry no guarantee of accuracy, but they can provide you with some information about how private analysts view the health of particular insurance companies.

Look at how several of the agencies rate a company. Note, though, that different rating agencies use different criteria and rating scales for insurance companies. When checking with an agency, be sure to ask about the scale it uses and how it designates the highest rating



Need help?  
Contact MID at  
800.562.2957

so that you will be able to put the rating of the company you are considering in context. It's also a good idea to see if an insurer's grades have changed over the last couple of years.

Ratings issued by the various agencies are available at most public libraries, or you may call the numbers listed below. Some companies make their ratings available via the Internet. Some major rating agencies, their phone numbers, and internet links include:

- A.M. Best Co. 908-439-2200  
(www.ambest.com)
- Demotech 800-354-7207  
(www.demotech.com)
- Moody's Investor Service 212-553-0377  
(www.moody's.com/insurance/)
- Standard & Poor's 212-438-2400  
(www.standardandpoors.com)
- Weiss Ratings 800-289-9222  
(www.weissratings.com/)

If you find that one company is able to quote you a much lower price or a much higher yield on an insurance product than the other

companies you are considering, be careful. It may be that the company is taking greater risks itself, such as having too many high-risk investments.

Sometimes, if a company is having financial difficulty, it may start to pay its claims more slowly or not at all. While a large number of consumer complaints lodged against a company is not a certain way to tell if a company is healthy, it's a good clue. Ask the Mississippi Insurance Department if there have been an unusually large number of consumer complaints against the company.

**Guaranty Association Coverage**

The law creating the Mississippi Insurance Guaranty Association covers most direct property and casualty insurance (such as auto and homeowners and workers compensation), while the Mississippi Life and Health Insurance Guaranty Association covers such products as life insurance, health insurance, annuities, and supplemental contracts. Founded in 1970, the Mississippi Insurance Guaranty Association has handled 75 insolvencies, paying out nearly \$52 million in benefits to policyholders. Since its founding in 1985, the Mississippi Life and Health Insurance Guaranty Association has handled over 70 insolvencies, paying out over \$125 million in benefits to policyholders. In most cases of insolvency, the Mississippi Insurance Department will work to find a financially-stable company to assume the business of the impaired insurer, assuring uninterrupted coverage to policyholders.

Guaranty association coverage not only covers claims for insured losses; it may also refund part of the premium on your policy if the policy is cancelled before its expiration date.

**Residency** – In Mississippi, resident policyholders and claimants are covered by one

of the two guaranty associations that operate in the state. Non-residents must look to their own states' guaranty associations for payment. In the case of claims for property losses, the property must be permanently located in Mississippi.

**Coverage** – The Mississippi Insurance Guaranty Association covers most direct property and casualty insurance, including:

- Automobile
- Homeowners
- Commercial Property
- Workers' Compensation
- General Liability
- Malpractice Insurance

Other types of property and casualty insurance such as: employer and self-funded workers compensation plans, title insurance, mortgage guaranty insurance, surety insurance, ocean marine insurance, credit insurance, national flood insurance, financial guaranty insurance, and municipal risk management pools are not covered by the association. The Mississippi Life and Health Insurance Guaranty Association covers products such as life insurance, health insurance and annuities.

The Mississippi Life and Health Insurance Guaranty Association does **not** cover policies issued by fraternal benefit societies, various self-funded plans, or health maintenance associations (HMOs).

State law places a limit on how much a guaranty association may pay to a person presenting a claim to an insolvent insurer. These limits vary, depending on the type of

insurance product. All workers compensation claims are paid in full, while other claims are subject to statutory provisions.

**Filing a claim if your insurance company has failed**

When the Commissioner of Insurance determines that an insurance company is hopelessly insolvent – that is, unable to pay its claims – the state takes over the company in a process called a receivership. The receivership typically goes through several phases, beginning when the Commissioner-appointed receiver attempts to salvage the company by reducing expenses and obtaining new capital. Often, the receiver will seek solvent insurers to assume, or 'reinsure' some or all of a failed company's policies. This offers policyholders the benefit of uninterrupted coverage, as long as they continue paying their premiums. When this occurs, each policyholder receives an assumption certificate. A policyholder has the right to reject the new company and seek coverage elsewhere. But in most instances, accepting the new insurer is in the best interest of the policyholder.

If the receiver finds that the impaired company cannot be restored or assumed by another insurer, the company will be placed into liquidation. Once this occurs, guaranty association money can be used to pay claims against the company. Policies are cancelled with 30 days notice and deadlines for filing claims are set, usually between 90 days and 12 months of notice. The receiver will mail 'proof of claim' forms to policyholders and known claimants.

The Mississippi Insurance Guaranty Association (property and casualty insurance)